



CITY OF KIRKLAND

Department of Public Works

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MEMORANDUM

To: Kurt Triplett, City Manager

From: John MacGillivray, Solid Waste Coordinator
Ray Steiger, P.E., Interim Public Works Director

Date: March 29, 2011

Subject: King County Solid Waste Division Interlocal Agreement Briefing

RECOMMENDATION

Staff recommends that the City Council:

1. Receive a presentation on the pending Solid Waste Interlocal Agreement negotiations and discuss and consider its options; and
2. Support the extended ILA negotiation process to allow longer term (20-30 year) bonding to finance the completion of the Solid Waste Transfer and Waste Export System Plan

BACKGROUND

At the April 5, 2011, City Council Study Session, Mr. Kevin Kiernan, Director of the King County Solid Waste Division (KCSWD), will present details of the pending solid waste interlocal agreement (ILA) negotiations that cities are undertaking with the KCSWD and to answer questions. The presentation will include:

- A history of mitigation efforts at the Houghton Transfer Station (HTS);
- The development and responsibilities of the Metropolitan Solid Waste Management Advisory Committee (MSWMAC) of which Councilmember Greenway is Chairperson;
- A discussion of the evolution, content, and financing of the Solid Waste Transfer and Waste Export Plan (2006);
- An explanation of the rates (tipping fees) the City of Kirkland pays to be a member of the KCSWD transfer system;
- The purpose and benefits of signing a new, extended ILA with King County

Kirkland is one of 37 King County cities that signed an ILA with King County in 1988. The agreement is due to expire in 2028. Per the agreement, ILA cities have agreed to direct all their solid waste to the King County transfer system and pay a rate to the KCSWD for the transport and disposal of their solid waste. In return, the KCSWD manages and maintains its transfer stations, consolidates and transports solid waste, and ultimately disposes of our solid waste at the County's only operating landfill at Cedar Hills.

There are two major documents referenced throughout this memorandum that provide guidance to the KCSWD in its management of the solid waste system:

Draft 2009 Comprehensive Solid Waste Management Plan ("Comp Plan")

The Comp Plan presents proposed strategies for managing King County's solid waste over the next several years. The plan was developed in a collaborative effort with the 37 cities that have ILAs with the County. The plan presents draft policies, recommendations, and goals in several areas including solid waste systems planning, waste prevention and recycling, collection and processing, the transfer system, solid waste disposal and landfill management, and system financing. Later in 2011, member cities will have the opportunity to review and formally adopt the plan via an ordinance. In January 2010, the City Council received a presentation from King County and City staff on the plan. A link to an electronic copy of the plan can be found here:

<http://your.kingcounty.gov/solidwaste/about/Planning/documents/DRAFT-2009-comp-plan.pdf>

Solid Waste Transfer and Waste Export System Plan ("Transfer Plan")

The Transfer Plan, adopted by the King County Council in 2006 and approved by MSWMAC, provides a blueprint for the future of King County's solid waste management system and was developed in collaboration with ILA cities. The plan evaluates the integrity of the transfer stations, identifies their efficiencies and deficiencies, and makes recommendation for the future transfer system. The plan is in the process of being implemented by King County and has already resulted in the construction of the Shoreline Transfer Station and the current construction of the new Bow Lake transfer facility. A link to an electronic copy of the plan can be found here:

<http://your.kingcounty.gov/solidwaste/about/Planning/documents/Transfer-WasteExportPlanAppendices.pdf>

KEY ISSUES NECESSITATING THE ILA NEGOTIATION PROCESS

The following summary is taken, in part, from the MSWMAC Solid Waste ILA Review Committee Work Plan (attached) distributed to MSWMAC members at the March 11, 2011 meeting.

ISSUE 1: Financing of the Transfer Station System Plan

The KCSWD is currently in the process of renovating or replacing its existing transfer stations in accordance with the aforementioned Transfer Plan which was approved by cities' elected official representatives to MSWMAC but not formally approved by member cities. The cities that elect to formally adopt the Comp Plan later in 2011 will by default adopt the recommendations included in the 2006 Transfer Plan since the recommendations are included in the Comp Plan.

The Transfer Plan calls for the closure of the Houghton Transfer Station (HTS) once the Northeast Lake Washington transfer station is sited and constructed around 2018. The Transfer Station Plan recommends the closure of the HTS based upon its failure to meet several key level-of-service criteria such as its proximity to neighborhood residences, incompatibility with surrounding land use, inadequate vehicle and average daily handling capacities, lack of recycling services, and safety-related issues.

The region's transfer stations, built in the 1960's, are reaching their intended service life and newer safety, seismic, and operational standards have been developed. The County and cities have collaborated on the development of a transfer station plan to invest in new transfer stations with a potential life of 40+ years. Capital investments associated with the plan are financed from bonds that are re-paid from revenue received from disposal rates adopted by the

King County Council (KCC). However, the term of financing for bonds is linked to the term of the cities' ILAs, which currently expire in 2028 – approximately 17 years from now.

The region faces choices of:

1. Financing these significant capital investments within the next 17 years or less; or
2. Extending the term of the ILAs to allow longer time term financing (20-30 years) which is more in line with the anticipated lifespan of the new transfer stations.

The region's final decision will have a direct impact on disposal rates: higher rates paid over a shorter time period or lower rates paid over a longer time period, depending upon the term of the ILA. If shorter bonds are issued and paid by 2028 then the debt service component of the tipping fee would peak at approximately \$34/ton in 2019. If longer 30-year bonds are issued then the debt service component of the tipping fee would peak at approximately \$23/ton in 2019 – a difference of about 48 percent. By the end of March 2011, the County Executive intends to propose a one-year solid waste disposal rate for 2012 to the KCC in order to provide cities and the County time to negotiate and consider their options. After key decisions have been made regarding the extended ILA and financing options, the KCSWD will re-evaluate the 2012 one-year rate and consider its options which may include a multi-year rate for 2013 and beyond.

ISSUE 2: The Future Solid Waste System

The transfer station infrastructure upgrade program will provide the opportunity for cities to continue to receive solid waste services from King County well beyond 2028. The ILAs can be extended to a date that more closely aligns with the useful life of the solid waste system or some other long-term date beyond 2028. The disposal system that will be used once the Cedar Hills Regional Landfill closes has yet to be determined. Currently, the Cedar Hills landfill is expected to close in 2024, and it is anticipated that decisions on the next disposal system will be decided at least five years prior to the closure of the landfill. Transfer stations are anticipated to be needed regardless of the post-Cedar Hills disposal system.

ISSUE 3: Governance/Partnership between the Cities and King County

The work between the cities and the County in developing the Transfer Plan and the Comp Plan is a model for regional collaboration. Memorializing that partnership approach and decision-making process for the regional solid waste system in the ILAs would continue this collaborative approach into the future. This would include incorporation of milestones that are tied to key decisions on financing, changes in technology and waste export among others. This approach would include a process for cities and the county to collaborate on significant decisions affecting financing, facilities, and new technology for the regional system.

Some of the specific issues identified by cities to be included in the ILA negotiations with the KCSWD are listed in the attached Draft ILA Review Committee Work Plan. The Committee will develop recommendations for MSWMAC review for each issue. The Committee will refine MSWMAC recommendations and provide a final copy for MSWMAC review and concurrence. Updates on the progress of the ILA negotiations will be provided to all cities via numerous methods to include fact sheets and other materials, presentations at City Manager Meetings and Suburban Cities Association meetings, and to any City that requests a tailored presentation.

Specific City ILA Issues

For the sake of brevity, not all of the issues identified in the Committee's work plan will be presented in this memo and only the key, emergent issue of importance to Kirkland will be discussed in detail below. KCWSD and Kirkland City staff are prepared to answer questions pertaining to any issues not discussed at the study session.

Host City Mitigation

As a host city, Kirkland has worked closely with the County over the past several years to ensure that the local impacts of the HTS are minimized and mitigated. Some of the measures taken by the County to mitigate the effects of the HTS have included ongoing litter control; a noise wall, restrictions on full trailer storage; rerouting of hauler collection vehicles away from the adjacent neighborhood; a pedestrian pathway; and, recently, a roof repair. Other host communities have received similar mitigation measures, some comparable to HTS and some unique to their location. Cities are interested in ensuring that any and all reasonable mitigation measures are available to them including mitigation measures linked to the damage transfer vehicles may cause to host city streets.

Direct Billing of Disposal Fees

In current solid waste contracts, the hauler is responsible for paying disposal fees ("tipping fees") directly to the KCSWD. The tipping fee portion of the solid waste rate is apportioned equally across the customer base by cart and detachable container size and is based upon an estimated, negotiated baseline container weight at the beginning of the contract. Under this system, the contractor bears the financial risk if actual average container weights are higher than estimated but gains a financial benefit if actual average container weights are lower than estimated.

Kirkland's new contract with Waste Management includes the option for the City to pay disposal fees directly to the KCSWD. It is important to note that this option is currently not unavailable to cities due to the KCSWD's continued opposition. However, the direct payment option is supported by a number of cities as a way to save their ratepayers money and will be actively pursued during ILA negotiations.

The direct payment of tipping fees by the City provides several advantages and benefits to the rate payer:

- It effectively eliminates the potential for the contractor to gain a profit when the container weights come in lower than projected;
- It eliminates any potential for the contractor to profit from a hidden mark-up on the disposal component of the solid waste rate;
- It eliminates the cascading tax assessment effect in which three parties (the City, the KCSWD, and the hauler) pay B & O tax on the same disposal receipts; and
- It provides the City with a direct, real-time benefit from its waste diversion and recycling programs.

However, direct payment of tipping fees would also entail some costs and complexity to the cities. To be successful such a direct payment plan requires a robust auditing function to ensure that tonnage charged to city is actually collected only from residents

in the city. While it is likely that direct payment would be a net benefit, should this option become available, Kirkland would conduct a cost/benefit analysis before proposing such a switch.

The KCSWD has opposed this option on a variety of different grounds:

- The KCSWD has commercial agreements with haulers that deal with the use of transfer stations and those understandings cover not only damage to facilities by trucks and contractor actions, but also who is responsible for unacceptable or otherwise dangerous loads. Under a direct payment scenario, a city would be in the responsibility loop for unacceptable loads and the contractors would be responsible for the actions of their drivers.
- The KCSWD has characterized the elimination of the cascading B & O tax assessment as an attempt at tax avoidance.
- Cities are not defined as "users" and the County is restricted from having transfer station use/disposal payment agreements with cities with "commercial" use terms.

Rent on the Cedar Hills Landfill

From 1960 until 1992, King County leased the Cedar Hills property from the Washington State Department of Natural Resources. The State of Washington transferred the property to the County in 1992 in exchange for a nominal payment and the County accepted full liability for any claims related to the landfill. This includes both liability during operation of the site and long term liability which would extend beyond closure and perhaps beyond the life or assets of the utility.

In 2002, the County made a determination that the KCSWD should have been paying rent to the King County General Fund for use of the landfill property. The County initially proposed to collect rent back to 1992 in addition to rent for ongoing operations. In the interest of addressing objections raised by some cities, the back rent was not assessed. The State Auditor's Office reviewed this action and found prospective rent to be acceptable.

Cushman & Wakefield performed a Market Rent Appraisal in 2003. The rent was based on a present value calculation for remaining landfill capacity. The appraisal valued the landfill capacity at \$60 million based on the following factors:

- Cedar Hills Capacity – at that time the landfill was forecasted to close in 2012; the current forecast is closure in approximately 2024
- Tonnage Forecasts – tonnage is currently significantly below past forecasts
- Seattle Waste Export Cost – this was used as a benchmark for the market value of disposal services; the current cost is about \$8.00 less than what was forecast at the time of the appraisal

Based on the appraisal, the County established rent schedule for the KCSWD that commenced at \$7 million in 2004 and rises annually by an inflationary factor with a final payment in 2014. Since the rent paid on Cedar Hills comprises \$10.74/ton (10%) of the proposed \$108/ton 2012 King County tipping fee, cities are very interested in ensuring

the validity and necessity of the rent payment scheme and ensuring the accurate valuation of the remaining landfill capacity.

ILA NEGOTIATION AND ADOPTION SCHEDULE

The following schedule outlines the proposed sequence and timing of the ILA renegotiation process:

Feb-June 2011:	Develop recommendations and draft amendments to the ILA
July-Sept 2011:	Finalize recommendations and amendments to the ILA
Oct-Mar 2012:	Cities adoption process for amendments to the ILA
Apr-June 2012:	KCC adoption process for amendments to the ILA
June-Aug 2012:	KCC adopts a new multi-year rate

This schedule assumes that KCC will adopt a one-year rate in 2012, with a subsequent multi-year rate adopted in 2013. The multi-year rate will be impacted by the term of debt for the required bonds.

OPTIONS AND STAFF RECOMMENDATION

The viable options are presented below:

Option 1: Do not support the extended ILA negotiation process and support financing of the transfer system capital investments within the next 17 years or less within the existing ILA;

Option 2: Support the ILA negotiation process to improve existing term and conditions, as well as extending the term of the ILAs to allow longer time term financing (20-30 years) which is more in line with the anticipated lifespan of the new transfer stations;

Staff recommends that the City Council support Option 2. Membership in the King County solid waste management system and the ability to take advantage of its economy of scale has played large role in our ability to keep our solid waste rates low. The fees charged by the KCSWD to its member cities have been consistently among the lowest in the region. The improvements recommended in the Transfer Plan will ensure that member cities have access to a modern and efficient system for decades to come.

Due to the circumstances surrounding the bonding and the financing of the Transfer Plan, both the County and the member cities are motivated to collaboratively negotiate a new extended ILA. The negotiation of a new extended ILA provides the member cities with a unique opportunity to not only gain the benefits and access to a modernized transfer system but to concurrently improve the terms and conditions ILA and resolve many of key issues that have arisen since the dated 1988 agreement was signed.

The longer term (20-30 year) bonding option should result in lower rates over a longer period of time and will ensure that the financing is spread across the anticipated lifespan of the new transfer stations. Discussion of other issues noted above, such as rent on the Cedar Hills Landfill and direct billing of disposal fees, also has the potential for reducing future costs and solid waste rates to Kirkland's customers.

King County Solid Waste System

Kirkland City Council

April 5, 2011



Department of Natural Resources and Parks

Solid Waste Division

A Collaborative Approach to System Planning

- ❑ In 2004, ordinance 14971 established a process for collaborative participation by the cities in solid waste planning
- ❑ The Metropolitan Solid Waste Management Advisory Committee (MSWMAC) was formed and has been meeting since January 2005
- ❑ MSWMAC has 22 member cities represented by both elected officials and staff
- ❑ Kirkland elected officials and staff have been active participants on MSWMAC
- ❑ MSWMAC and the division collaborated on the development of the *Comprehensive Solid Waste Management Plan* and the adopted *Solid Waste Transfer and Waste Management Plan*

Evaluating the Transfer System

- ❑ An iterative process of analysis and reporting resulted in the development and adoption of a major renovation plan for the transfer system network
- ❑ Evaluation criteria were applied to five of the six urban stations – Algona, Bow Lake, Factoria, Houghton, and Renton
- ❑ 17 criteria were grouped into broad categories
 - Level of service to customers
 - Station capacity and structural integrity
 - Effects on surrounding communities

The Houghton Transfer Station

- ❑ The Houghton Transfer Station opened in 1965
- ❑ The transfer station replaced a landfill that had been operating since about 1945
- ❑ The neighborhood has grown up around the site, making it no longer a suitable location for the facility
- ❑ Evaluation determined that the Houghton Transfer Station was incompatible with surrounding residential and recreational land use

The Transfer System Plan

The plan recognizes the need to modernize the county's urban transfer system

- ❑ To increase capacity, for both now and the future
- ❑ To meet demands for recycling services and transfer of household hazardous waste
- ❑ To increase operational efficiency
- ❑ To create a sustainable system
- ❑ To ensure continued service

The Urban Transfer System

Current	Planned
Shoreline Recycling & Transfer Station	Complete – new recycling and transfer station opened in February 2008
Bow Lake Transfer Station	New facility under construction – Phase 1 to open in 2012
Factoria Transfer Station	Facility Master Plan at King County Council – rebuild facility at current location and on adjacent property, do not build on Eastgate property
Algona Transfer Station	Siting for a new south station to begin in 2011 – close Algona and open new station in 2018
Houghton Transfer Station	Siting for a new NE station to begin in 2011 – close Houghton and open new station in 2018
Renton Transfer Station	Close when transfer system upgrades are complete (subject to further evaluation)

Roof Renovation & Mitigation Project

- ❑ The transfer building roof was raised by nine feet, strengthened, and seismically upgraded
- ❑ A sound wall was installed along the western property boundary and the trail that runs alongside was upgraded
- ❑ A pedestrian pathway, with a curb and crosswalk markings across the driveway entrances to the transfer station, was added to NE 60th between 116th and 120th
- ❑ The trailer parking area was reconfigured to increase the maneuvering area and improve safety and hoses were installed for washing the area
- ❑ The wastewater collection system was upgraded
- ❑ A large screening wall depicting a natural forest image similar to the forest at Bridle Trails State Park will be installed on the south side of the transfer building

New Facility Design Features



- ❑ Fully enclosed transfer building
- ❑ Compactors to increase efficiency and decrease the number of loads
- ❑ Large recycling area – including organics, cardboard, and scrap metal collection
- ❑ Flexibility to change services, such as types of recyclables accepted, as needs change
- ❑ Sustainable building and landscape
- ❑ Design and landscaping to minimize view of the facility
- ❑ Improved access and queuing for commercial haulers and residential and business self-haulers

Financing the Transfer Plan

- ❑ Construction of new transfer facilities will be financed primarily through general obligation bonds
- ❑ Length of bonds will affect rates



Solid Waste Interlocal Agreements

- ❑ The current Interlocal Agreements (ILAs) between 37 cities and King County will expire in 2028
- ❑ The ILAs guarantee that cities will bring their waste to the county
- ❑ To protect system ratepayers, ensuring adequate revenue to repay bonds is critical – all bonds must be repaid before the expiration of the ILAs
 - Shorter bonds that are repaid by 2028
 - or
 - Longer ILAs and bonds of greater length

Looking Forward

- ❑ Life of the Cedar Hills landfill extended to at least 2024
- ❑ Implementing the transfer system plan – begin siting process for a new Northeast facility later this year
- ❑ New Comprehensive Solid Waste Management Plan
- ❑ New solid waste rate for 2012
- ❑ Interlocal agreement discussions
- ❑ Ongoing, collaborative relationship

Solid Waste ILA Review Committee
DRAFT Work Plan
March 2011

Purpose Statement:

The cities and county will work in partnership to review and implement the current Interlocal Agreements (ILAs) governing the regional solid waste system and to plan future agreements, including governance, facilities, and financing.

Work Process:

The Solid Waste ILA Review Committee will develop recommendations for MSWMAC review for each issue within a defined timeframe and structure. The Committee will incorporate MSWMAC's recommendations and provide a final copy for MSWMAC review and concurrence. Depending on the complexity of an issue, discussions may iteratively occur at numerous Committee and MSWMAC meetings to arrive at agreement on recommendations.

The Solid Waste ILA Review Committee will meet the 1st and 3rd Thursdays of each month to accomplish this work.

Schedule:

Feb to June 2011:	ILA Committee: Develop Recommendations and Draft Amendments to the ILAs
July to Sept 2011:	ILA Committee: Finalize Recommendations and Amendments to the ILAs
Oct to Mar 2012:	Cities adoption process for Amendments to the ILAs
Apr to June 2012:	King County Council adoption process for Amendments to the ILAs
June to Aug 2012:	King County Council adopts new multi-year rate

This schedule assumes that King County will adopt a one-year rate in 2011, with a subsequent multi-year rate adopted in 2012. The multi-year rate will be impacted by the term of debt for required bonds.

Key Issues:

Financing the Transfer Station System: The region's transfer stations were built in the 1960s and are old and inefficient. The county and cities collaborated on the development of a transfer station plan to invest in new transfer stations with a potential life of 40+ years. Capital investments associated with the plan are financed from bonds that are re-paid from revenue received from disposal rates adopted by the King County Council. The term of financing for bonds is linked to the term of the ILAs, which currently end in 2028.

The region faces choices of:

1. financing these capital investments within the next 17 years or less, or
2. extending the term of the ILAs to allow longer time term financing (e.g., 20-30 years) more in line with the anticipated lifespan of the new transfer stations

The choice impacts disposal rates: higher rates paid over a shorter time period or lower rates paid over a longer time period, depending on the term of the ILA.

By the end of March, the County Executive intends to propose to the County Council a one-year solid waste disposal rate for 2012 in order to provide the cities and the county time to consider this choice.

Future Solid Waste System: The transfer station infrastructure upgrade will provide the opportunity for cities to continue to receive solid waste services from King County well beyond 2028. The ILAs can be extended to a date that more closely aligns with the useful life of the solid waste system or some other long-term date beyond 2028. The disposal system that will be used once the Cedar Hills regional landfill closes has yet to be determined. Currently, the Cedar Hills Regional Landfill is expected to close in 2024 and it is anticipated that decisions on the disposal system will be decided at least five years prior to the closure of the landfill. Transfer stations are anticipated to be needed regardless of the post-Cedar Hills disposal system.

Governance/Partnership between the Cities and County: The work between the cities and county in developing the *Solid Waste Transfer and Waste Management Plan* and the *Comprehensive Solid Waste Management Plan* is a model for regional collaboration. Memorializing that partnership approach and decision-making process for the regional solid waste system in the ILAs would continue this collaborative approach in the future. This would include incorporation of milestones that are tied to key decisions on financing, changes in technology and waste export, among others. This approach would include a process for cities and the county to collaborate on significant decisions affecting financing, facilities and new technology for the regional system.

A list of issues to be reviewed by the Solid Waste ILA Review Committee is attached to this Work Plan.

Outreach:

The Solid Waste Division will develop fact sheets on the following items:

- Solid Waste Transfer Station and System Plan
- Cedar Hills Regional Landfill and Disposal Alternatives
- Interlocal Agreements (ILAs) Governing Solid Waste System (ILAs terms)
- Rates
- Rent paid for Cedar Hills Landfill
- Emergency Planning

Information and updates on this ILA Review Work will be provided to all cities via numerous methods, including distribution of the Work Plan, fact sheets, and any other materials that are developed; presentations at City Manager/Administrator Meetings, Suburban Cities Association Meetings, and to any City that requests a presentation, and as opportunities become available to inform and update cities.

Metropolitan Solid Waste Management Advisory Committee (MSWMAC)

The Metropolitan Solid Waste Management Advisory Committee (MSWMAC) is an advisory committee consisting of representation from any city in King County with an Interlocal Agreement for the provision of solid waste services from King County (all cities except Seattle and Milton). MSWMAC was created in 2004 upon the adoption of Ordinance 14971; the committee was established to be a collaborative forum to provide input in the development of the Solid Waste Transfer and Waste Export System Plan (adopted by the County in 2007) and provide recommendations to the King County Executive and King County Council on solid waste plans, programs, and issues of concern to cities.

The following cities currently have designated representation on MSWMAC:

Algona	Auburn	Bellevue
Bothell	Burien	Clyde Hill
Covington	Federal Way	Kenmore
Kent	Kirkland	Lake Forest Park
Mercer Island	Newcastle	Normandy Park
Redmond	Renton	SeaTac
Shoreline	Snoqualmie	Tukwila
Woodinville		

Solid Waste ILA Review Committee

The following entities are participating on the Solid Waste ILA Review Committee:

Cities:

Algona
Burien
Bellevue
Federal Way
Kirkland
Lake Forest Park
Redmond
Shoreline
Snoqualmie
Woodinville

King County:

Executive's Office
Department of Natural Resources and Parks, Director's Office
Solid Waste Division
Council staff

Solid Waste ILA Review Committee Issues for Review

Following is an aggregation and categorization of the ILA issues from the Governance Report as well as from the ILA Committee meetings:

Governance Issues:

Solid Waste Interlocal Forum
Dispute Resolution Language
Host City Mitigation
Milestones/Decision-making process
Weighted Voting

Financial Issues:

Financial Policies (including Direct Billing)
Transparency and Accountability
Rent on the Cedar Hills Landfill
Financing the Transfer Station system
Stranded Costs/Differential Rate
Debt Ceiling
Rates
Cost Containment

Other Issues:

Emergency Planning
ILA Term
Termination/Re-opener language

Issues for Small Group Meetings:

Cross Border Annexations